

Message Text

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ACTION EB-07

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COME-00 DODE-00 FRB-01 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-02 AID-05 CIEP-02 SS-15 STR-04

TAR-01 TRSE-00 USIA-15 PRS-01 SP-02 OMB-01 FEA-01

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TAGS: EIND, EFIN, EINV, JA

SUBJECT: FOREIGN INVESTMENT CLIMATE & STATISTICS

REF: (A) STATE 165596, (B) TOKYO 5029 (APRIL 17, 1974),
(C) STATE 53993 (MARCH 18, 1974)

1. FOLLOWING IS EMBASSY NARRATIVE STATEMENT ON INVESTMENT CLIMATE REQUESTED REF (A). AS WITH LAST YEAR'S STATEMENT, (REF B), STATISTICS NOT PROVIDED AS THEY APPEARED IN SURVEY OF CURRENT BUSINESS.

2. JAPAN'S DIRECT FOREIGN INVESTMENT REGULATIONS PROVIDE FOR 100 PERCENT FOREIGN PARTICIPATION WITH FEW EXCEPTIONS. MOST INVESTMENTS REQUIRE GOVERNMENT APPROVAL, HOWEVER.

3. MOST INVESTMENT AREAS ARE NOW OPEN TO 100 PERCENT FOREIGN OWNERSHIP OF NEW OR EXISTING ENTERPRISES. THERE ARE FOUR INDUSTRIAL SECTORS SCHEDULED FOR LIBERALIZATION BY MAY 1976. THESE ARE COMPUTER MANUFACTURING, SALES, & LEASING; EDP SOFTWARE; FRUIT JUICE & FRUIT DRINK MANUFACTURING;
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AND MANUFACTURE OF PHOTO SENSITIVE MATERIALS. THE

CONTROLLED INVESTMENT AREAS ARE: A. NINETEEN RESTRICTED SECTORS, WHERE ESTABLISHMENT OF NEW COMPANIES BY NATIONALS AND FOREIGNERS IS RESTRICTED BY LAW, WHICH FALL WITHIN FOLLOWING GENERAL AREAS: UTILITIES; RAIL, MARINE, ROAD AND AIR TRANSPORTATION; BANKING; FISHING; AND MINING.

B. FIVE SECTORS EXEMPTED UNDER OECD INVESTMENT LIBERALIZATION CODE; FOREIGN DIRECT INVESTMENTS WILL BE CONSIDERED ON CASE-BY-CASE BASIS: ARMS, EXPLOSIVES, NUCLEAR POWER, AIRCRAFT AND AEROSPACE DEVELOPMENT.

C. FOUR SECTORS EXEMPTED FROM LIBERALIZATION FOR AN INDEFINITE PERIOD: AGRICULTURE, FORESTRY AND FISHERIES; MINING (UP TO 50 PERCENT OWNERSHIP IN NEW INVESTMENTS PERMITTED); OIL INDUSTRY; LEATHER AND LEATHER PRODUCTS. THE MINING AND FISHING SECTORS FALL WITHIN THE RESTRICTED CATEGORY FOR PORTFOLIO INVESTMENTS AND THE EXEMPTED CATEGORY FOR EQUITY INVESTMENTS.

4. THERE IS NO LIMIT ON EQUITY INVESTMENTS IN EXISTING JAPANESE FIRMS IN FULLY LIBERALIZED CATEGORIES, BUT FIRM'S BOARD OF DIRECTORS MUST GIVE APPROVAL FOR FOREIGN EQUITY PURCHASES THAT INCLUDES MANAGEMENT PARTICIPATION. FOREIGN EQUITY INVESTMENT IN THE NON-LIBERALIZED SECTORS REMAIN LIMITED TO A TOTAL OF 25 PERCENT IN NON RESTRICTED SECTORS AND 15 PERCENT IN RESTRICTED SECTORS, OR 10 PERCENT FOR ANY SINGLE INDIVIDUAL OR FIRM.

5. THE GOVERNMENT RETAINS FORMAL AUTHORITY TO DENY A FOREIGN EQUITY INVESTMENT JUDGED NOT IN BEST INTEREST OF STATE. THE POLICY IS TO APPROVE APPLICATIONS FOR INVESTMENTS THAT PRESENT NO PROBLEMS WITHIN ONE MONTH FROM DATE OF SUBMISSION. IT IS STILL COMMON PRACTICE TO HOLD INFORMAL DISCUSSIONS WITH APPROPRIATE GOVERNMENT OFFICIALS PRIOR TO SUBMITTING FORMAL APPLICATION FOR LARGE INVESTMENTS. GOVERNMENT PRACTICE OF GIVING DIRECTION TO PRIVATE ENTERPRISES CONTINUES TO EXIST; THROUGH THIS PRACTICE GOJ CAN EFFECTIVELY INFLUENCE DECISION OF BOARD OF DIRECTORS NOTED PARA 4 ABOVE. DOMESTIC COMPANIES WILL FREQUENTLY TRY TO DELAY OR BLOCK FOREIGN INVESTMENTS THAT

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HAVE THE POTENTIAL OF BECOMING MAJOR COMPETITORS IN DOMESTIC MARKET. LOCAL RESISTANCE TO CONSTRUCTION OF CERTAIN TYPES OF PLANTS, BASED ON ENVIRONMENTAL CONCERNS, IS ALSO FEATURE OF PRESENT DAY JAPAN. HIGH LAND AND CONSTRUCTION COSTS, AVAILABLE LABOR AND HIGH WAGES ARE ALSO FACTORS IN INVESTMENT DECISIONS.

6. WHILE THE JAPANESE GOVERNMENT HAS LIBERALIZED ITS

REGULATIONS GOVERNING DIRECT FOREIGN INVESTMENT, MAKING
IT EASIER FOR FOREIGNERS TO INVEST IN JAPAN, IT STILL
DOES NOT ACTIVELY ENCOURAGE DIRECT FOREIGN INVESTMENTS.

7. CURRENTLY MOST FOREIGN INVESTMENT IN JAPAN IS
IN JOINT VENTURES AND IS COMBINED WITH FOREIGN TECHNO-
LOGICAL INPUT. DESPITE MORE LIBERAL REGULATIONS,
THERE HAS BEEN NO SPURT IN THE FORMATION OF WHOLLY OWNED
FOREIGN FIRMS IN THE MANUFACTURING SECTOR.
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